

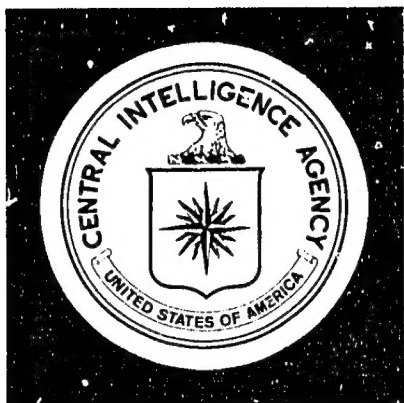
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Intelligence Report

Worldwide Distribution of OPEC Assets

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ER IR 75-14
May 1975

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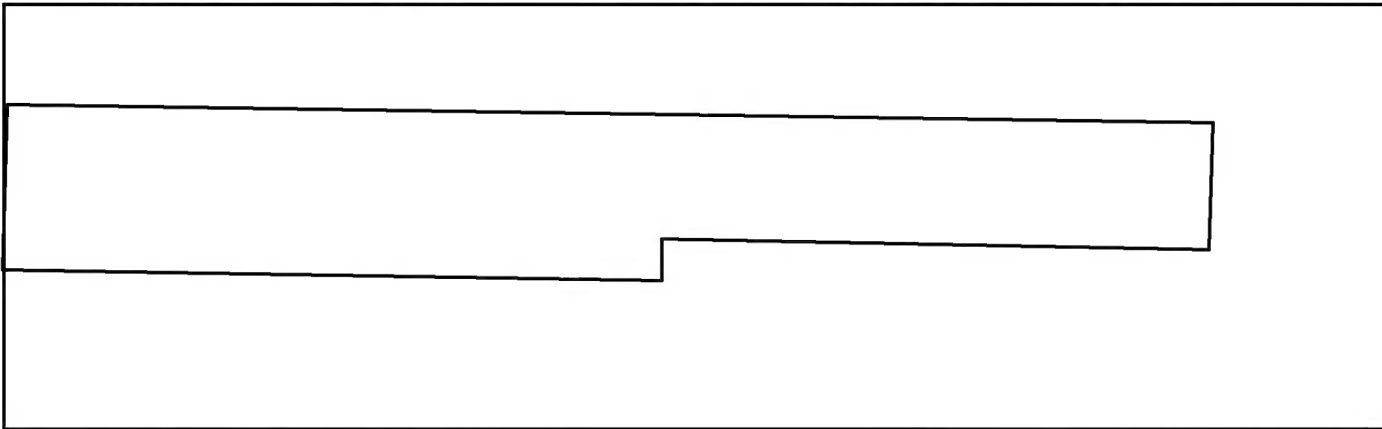
Foreword



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This report examines the discernible trends and presents a profile of OPEC foreign assets at the end of 1974.

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Worldwide Distribution of OPEC Assets

Major Trends in 1974 and Prospects for 1975

1. OPEC foreign official assets reached US \$73 billion on 31 December 1974, compared with \$21 billion a year earlier (see Figure 1 and Table 1). While all OPEC states enjoyed a rapid rise in foreign official asset holdings (see Figure 2), the most dramatic gains were in Iran and Nigeria, where holdings rose by about 650% and 860%, respectively (see Figure 3). Only four producers – Algeria, Ecuador, Indonesia, and Libya – failed to at least double their foreign asset level during the year. Of these, only Algeria and Indonesia had holdings equivalent to less than six months of 1974 imports.

2. With export earnings reaching almost \$120 billion and imports, net service payments, and disbursements of grant-type aid totaling \$49 billion, OPEC ran a \$71 billion current account surplus in 1974, which, because of a \$13 billion lag in payments by oil companies, left \$58 billion for investment. Our information on official OPEC foreign assets shows an increase of \$52.2 billion in 1974. This figure appears at least roughly consistent with the estimates of OPEC earnings and expenditures. After deducting this figure, the remainder of the \$58 billion surplus is only \$6 billion, and out of this OPEC would have had to finance several types of expenditures not elsewhere accounted for. These include prepayments on foreign debt and compensation for nationalized property.

3. Lacking the financial expertise to handle this rapid buildup, OPEC governments, by and large, simply allowed new funds to pile up in highly liquid bank deposits and other safe short-term assets. Even though producers became increasingly sophisticated during the year and developed stronger relationships with Western financial institutions, at the end of 1974 OPEC members' \$73 billion in foreign wealth was concentrated in

Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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Figure 1

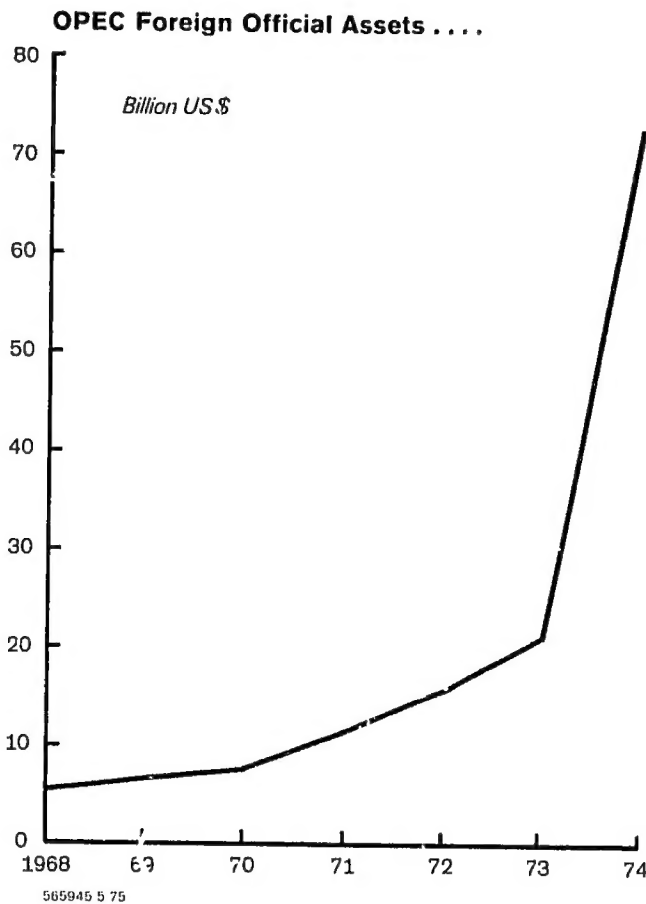
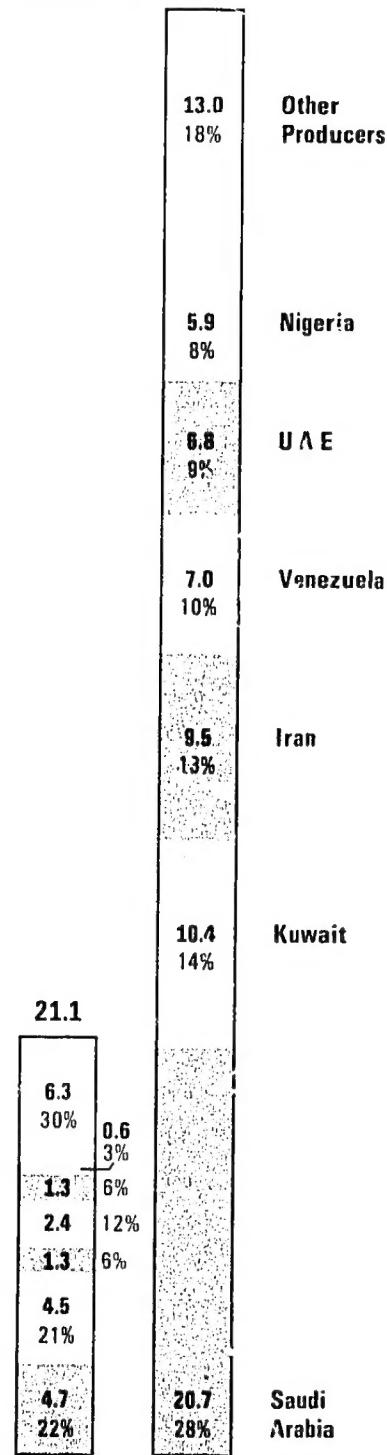


Figure 2

OPEC Foreign Official Assets, 1973 and 1974
Billion US\$ 73.3



- highly liquid assets - about 80% is accounted for by bank deposits and government securities;
- the financial markets of the major developed countries - London and New York alone account for 60%; and
- major currencies - about 70% is in dollars, and sterling accounts for another 10%.

4. OPEC foreign official assets are now growing slower than last year. Oil export earnings are declining, while imports continue to grow rapidly. Although we expect OPEC oil export volume to increase in the second half of this year,

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Table 1

OPEC: Foreign Official Assets

	31 December 1973			31 December 1974		
	Reserve Assets	Other Assets	Total Assets	Reserve Assets	Other Assets	Total Assets
Total	18,755	2,352	21,107	60,436	12,847	73,283
Algeria	1,143	14	1,157	1,689	14	1,703
Ecuador	241	3	244	350	3	353
Indonesia	807	41	848	1,492	41	1,533
Iran	1,237	25	1,262	8,383	1,093	9,476
Iraq	1,553	9	1,562	3,273	709	3,982
Kuwait	3,700	775	4,475	7,958	2,422	10,380
Libya	2,127	4	2,131	3,616	204	3,820
Nigeria	592	19	611	5,827	19	5,856
Qatar	360	38	398	1,500	150	1,650
Saudi Arabia	3,875	800	4,675	15,764	4,980	20,744
United Arab Emirates	700	600	1,300	3,672	3,128	6,800
Venezuela	2,420	24	2,444	6,902	84	6,986

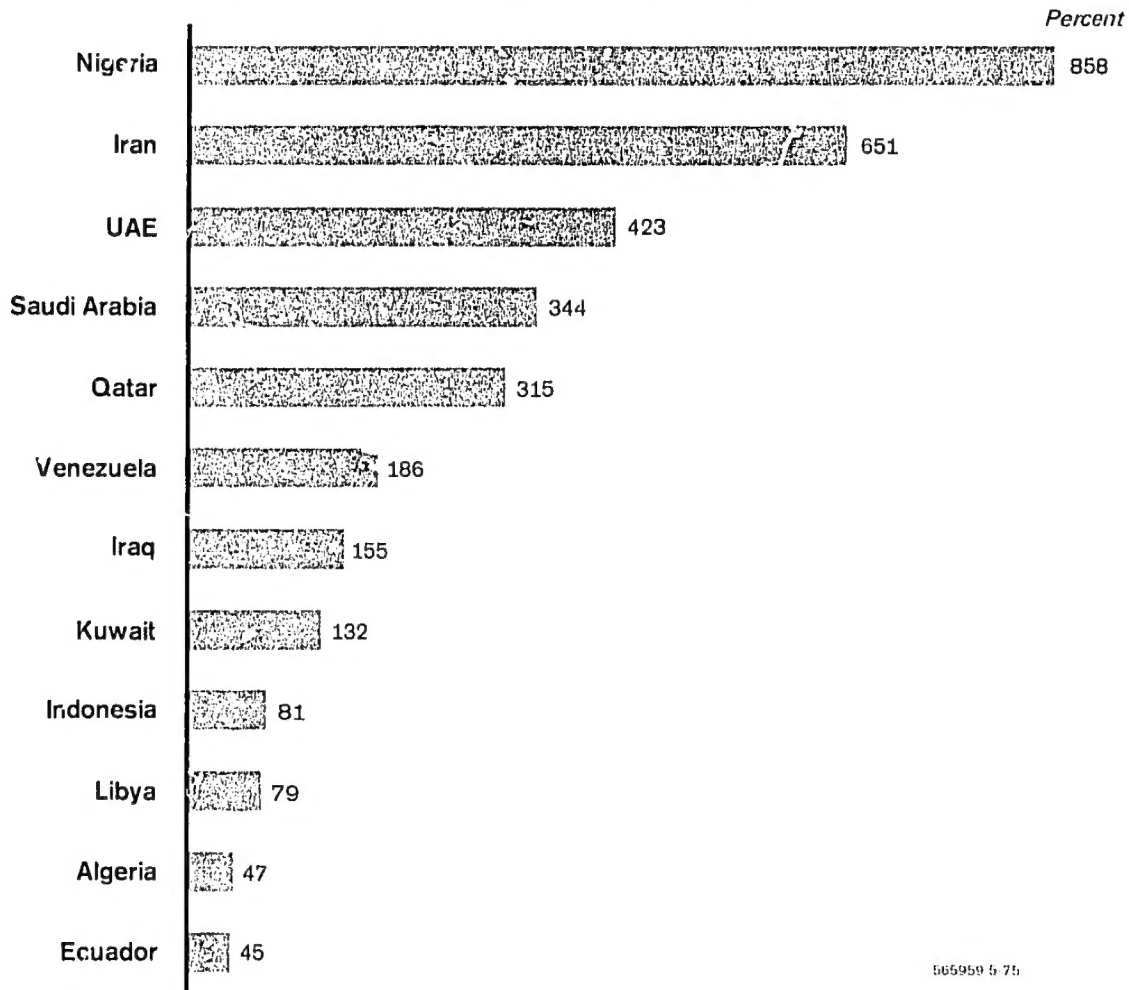
OPEC export earnings should drop to \$109 billion for 1975, or some 10% below the 1974 level. OPEC imports are expected to grow by 50% this year, reaching \$55 billion. Net service payments and grant aid disbursements will together total about \$12 billion, leaving an investible surplus of about \$42 billion and an increase in official holdings of around \$38 billion. Consequently, these holdings are likely to reach more than \$110 billion by the end of 1975.

5. Dramatic changes in the pattern of OPEC foreign investment are unlikely, but the gradual trend will be toward

- longer term placements in the form of purchases of the debt and equity of large private and public corporations in the major developed countries;
- more investment in continental Europe, Japan, and Canada and less in the United Kingdom; and
- somewhat greater diversity in the currency denomination of OPEC holdings, although the bulk will continue to be dollar denominated.

Figure 3

Growth in OPEC Foreign Official Assets During 1974. . .



These trends are already becoming discernible. Saudi Arabia, for example, is already investing more heavily in longer term assets such as equities, corporate bonds, and notes. Kuwait has also been showing increased interest in equity and real estate investment. Furthermore, other producers are expected to increase longer term investments, especially if short-term rates remain below long-term rates.

6. The proportion of total OPEC funds going into longer term investments is expected to grow as producer wealth becomes increasingly concentrated in the hands of the three producers – Iran, Kuwait, and Saudi Arabia – most active in long-term investment.

- Iran is interested in acquiring debt and equity in major Western companies that can aid in developing its economy.
- Kuwait established at least seven special investment accounts during 1974 to help acquire long-term assets, particularly equities.

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- Saudi Arabia, under the new and less conservative leadership of Prince Fahd and the new Governor of the Saudi Arabian Monetary Agency is now augmenting local expertise by developing stronger relationships with major Western financial institutions.

7. The share of producer assets invested in the United States will probably remain near its present level, assuming no deterioration in Arab-US political relations. We believe OPEC investment in the United States will increase from near \$15 billion at the end of 1974 to about \$24 billion at the end of this year. Continued high inflation and doubts about the value of sterling will reduce new investment in the United Kingdom. OPEC investment in continental Europe, Canada, and Japan is likely to increase somewhat, while placements in other countries will remain insignificant.

8. The oil producers would probably prefer, but will be hard pressed to achieve, greater currency diversification. Attempts to increase investment greatly in major continental currencies would elicit responses in the form of capital controls or other measures designed to limit inflows from governments unwilling to tolerate additional currency appreciation or dollar accumulation. Sterling remains available but unattractive. In sum, the dollar market remains the only one of sufficient depth and openness to handle the major share of OPEC investments.

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Profile of OPEC Official Foreign Assets, 31 December 1974

Concentration

The \$73 billion in OPEC foreign official assets at the end of 1974 were highly concentrated in a few countries. Three of the 12 OPEC states held 55% of the total assets.

- Saudi Arabia held \$20.7 billion in foreign official assets, or nearly 30% of total OPEC holdings.
- Kuwait and Iran held \$10.4 billion and \$9.5 billion, respectively, or more than 25% of OPEC wealth.
- Venezuela, the United Arab Emirates (UAE), and Nigeria combined had 25% of the assets, with the remaining 20% split among the other OPEC states.

Composition

About 85% of foreign official holdings were in very secure and highly liquid reserve assets (see Tables 2 and 3). These reserves totaled about \$60 billion, or roughly three-fourths of the combined foreign reserves of the five leading non-Communist industrial powers – the United States, Japan, West Germany, France, and the United Kingdom.

- Bank deposits accounted for about 60% of the total assets.
- Another 20% was held in government securities, largely US government and US agency issues.
- Gold and holdings in the International Monetary Fund (IMF) accounted for about 5% of OPEC foreign wealth.

About 15% of OPEC's officially owned foreign holdings were nonreserve assets, such as equities and loans.

- Countries with the greatest capacity to absorb imports, such as Algeria, Ecuador, Indonesia, Nigeria, and Venezuela, held 5% or less of their wealth in these less liquid assets.

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Table 2

OPEC: Foreign Official Assets as a Percent of Total¹
31 December 1974

	Reserve Assets					Other Known Assets
	Total	Total	Gold/ SDRs/IMF Position	Bank Deposits	Government Securities	
Total	100	85	5	80		15
Minimum amount in US dollars	70	60	....²	60		10
United States	20	20	Negl.	10	10	Negl.
United Kingdom						
Dollars	30	30	....	30	0 ³	Negl.
Sterling	10	10	....	10		Negl.
Other currencies	Negl.	Negl.	....	Negl.	Negl.	Negl.
Continental Europe and Japan						
Dollars	15	10	....	10		5
Other	5	5	....	5		Negl.
IMF	5	5	Negl.	....	Negl.	....
World Bank	5	5	....	....	5	Negl.
Other ⁴	10	5	Negl.	5		5

1. All data are rounded to the nearest 5%.

2. An ellipsis indicates that no investment is likely.

3. A zero indicates that no investment has occurred.

4. Including \$1 billion in short-term funds held in Nassau until suitable long-term US investments can be found.

- Even Kuwait and Saudi Arabia, however, maintained no more than 25% of their holdings in such assets.

Location

OPEC's wealth was predominantly located in the major developed countries (see Table 4).

- London, including the Eurocurrency deposits held there, accounted for about 40% of the total, most of which was in bank deposits. Iran, Kuwait, Nigeria, and Saudi Arabia held 90% of producer investment in the United Kingdom.

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Table 3

OPEC: Foreign Official Assets, by Type
31 December 1974

	Percent of Total ¹				
	Total	Gold/SDRs/ IMF Position	Bank Deposits	Government Securities	Nonreserve Assets
OPEC	100	5	80		15
Algeria	100	20	80		Negl.
Ecuador	100	10	90		Negl.
Indonesia	100	5	90		5
Iran	100	5	70	15	10
Iraq	100	5	65	10	20
Kuwait	100	Negl.		75	25
Libya	100	5		90	5
Nigeria	100	Negl.		100	Negl.
Saudi Arabia	100	Negl.	55	20	25
Venezuela	100	10	75	15	Negl.

1. All data are rounded to the nearest 5%.

Table 4

OPEC: Foreign Official Assets, by Location
31 December 1974

	Percent of Total ¹					
	Total	United States	United Kingdom	Continental Europe and Japan	IMF/ World Bank	Other
OPEC	100	20	40	20	10	10
Algeria	100	15	30	50	5	Negl.
Ecuador	100	15	15	5	5	60
Indonesia	100	65	5	10	10	10
Iran	100	15	55	20	10	Negl.
Iraq	100	15	5	40	Negl.	40
Kuwait	100	15	50	10	10	15 ²
Libya	100	15	Negl.	70	Negl.	15
Nigeria	100	40	55	Negl.	5	Negl.
Saudi Arabia	100	20	40	25	5	10
Venezuela	100	45	15	20	10	10

1. All data are rounded to the nearest 5%.

2. Including \$1 billion in short-term funds held in Nassau until suitable long-term US investments can be found.

- About 20% of OPEC assets were held in the United States; almost half consisted of US government and US agency securities owned primarily by Nigeria and Saudi Arabia. In addition, Kuwait held at least \$1 billion in Nassau at the end of the year, pending suitable long-term investments in the United States.
- About 20% of OPEC's foreign assets were located in continental Europe, primarily in France and Switzerland, and in Japan.
- Some 10% was held by the International Monetary Fund and the World Bank.
- The remaining 10% was spread among a number of countries including Canada, the Middle East, and even some Communist states.

Currency Composition

More than 80% of OPEC's foreign wealth was in dollar- or sterling-denominated assets.

- Dollar-denominated holdings accounted for 70% of the total (see Table 5). Only Iraq and Nigeria held less than one-half of their foreign wealth in dollar-denominated assets.
- Sterling accounted for another 10% of OPEC wealth. Kuwait and Nigeria together held 70% of sterling holdings.
- About 15% of OPEC wealth is denominated in other currencies, mainly German marks and Swiss and French francs.
- Gold and IMF assets, including the IMF oil facility, account for only 5%.

Table 5
OPEC: Foreign Official Assets, by Currency
31 December 1974

	Percent of Total ¹				
	Total	Gold/SDRs/ IMF Position	Dollars	Sterling	Other
OPEC	100	5	70	10	15
Algeria	100	20	70	Negl.	10
Ecuador	100	10	85	Negl.	5
Indonesia	100	5	80	Negl.	15
Iran	100	5	90	Negl.	5
Iraq	100	5	30	5	60
Kuwait	100	Negl.	65	20	15
Libya	100	5	55	Negl.	40
Nigeria	100	Negl.	40	55	5
Saudi Arabia	100	Negl.	80	10	10
Venezuela	100	10	85	Negl.	5

1. All data are rounded to the nearest 5%.